

MEMORANDUM

TO: Enron Files
FROM: Steven Rosen
DATE: January 31, 2002
RE: Interview of Ryan Siurek

On January 31, 2002, David Cohen and Steven Rosen of Wilmer, Cutler & Pickering ("WCP") spoke with Ryan Siurek, Senior Director, Transaction Support, at Enron's Houston headquarters to gather information from him in order to allow WCP to provide legal advice to the Special Committee of Enron's Board of Directors. Siurek was represented at the interview by Allison Landis of Swidler Berlin Shereff Friedman.

This memorandum has been prepared by counsel in anticipation of possible litigation arising from a Securities and Exchange Commission ("SEC") investigation and any parallel or related proceedings. This memorandum incorporates the mental impressions, analyses and opinions of counsel. As such, this memorandum is intended solely to assist counsel in providing legal representation and advice to the Special Committee of Enron's Board of Directors, and is not intended to provide a substantially verbatim recital of Siurek's statements. The interview was based on WCP's understanding of the facts and review of documents as of the date of the interview. Furthermore, Siurek has not reviewed this memorandum. Therefore, this memorandum may contain inaccuracies and the following discussion of certain events may be incomplete or lack context.

At the outset, Cohen referred Siurek to the admonitions made at his previous interview: (1) that WCP represented the Special Committee appointed by the Board to investigate certain transactions between Enron and related parties, and we were speaking to him as part of that investigation; (2) that we did not represent Enron's officers or employees, including him, that, in our view, the conversation was privileged but it was the Special Committee's (or Enron's) privilege, and that the Special Committee or Enron could decide what to do with the privilege, not him; and (3) that Siurek should anticipate that anything he told us would be conveyed to the Special Committee, and that the information could be communicated to others, such as the Board, others associated with Enron, and the Government. Siurek said that he understood.

Congratulatory calls from Skilling and Fastow

During the middle of the afternoon on the day that the Raptor restructuring closed (approximately 3:30-4:00 p.m.), Jeffrey Skilling called Siurek to congratulate him on the restructuring. Skilling stated that he appreciated Siurek's hard work. He also stated either that the transaction was good for Enron or that the transaction would save Enron a lot of money (Siurek could not recall precisely which). Skilling's comments (e.g., the transaction was a "win-win" for Enron) gave Siurek the impression that Skilling knew the financial aspects of the transaction.

Siurek was not anticipating a call from Skilling and he does not know how Skilling got his name. At the time of the call, Gordon McKillop was in Siurek's office and George McKean was immediately outside. Both were aware of the call. Ben Glisan was also aware of Skilling's call. Glisan told Siurek that such calls were not unusual in big transactions and that Andrew Fastow would often tell Skilling to call certain employees. Siurek does not know if Skilling called anyone else.

Fastow also called Siurek and left a voicemail congratulating Siurek for the restructuring transaction. Fastow said that that it was a good deal for Enron and LJM.

Skilling's involvement in the Raptor restructuring

On at least two occasions, while Rodney Faldyn was on vacation, Siurek went to Rick Causey's office to give him information about Enron's options for dealing with the Raptors' credit capacity problems.¹ Siurek was helping Causey prepare to present Skilling with the alternatives so that Skilling could make decisions regarding the restructuring. It was Siurek's understanding that Skilling was the ultimate decision-maker concerning the restructuring. On at least one occasion, Causey's assistant interrupted Siurek's meeting with Causey to tell Causey that Skilling was ready to meet with him.

Siurek also communicated with Causey through voice-mail messages. Causey said that Skilling approved of the restructuring transaction.

Siurek has no doubts that Skilling knew about the Raptor's credit capacity problems and about the restructuring. Ben Glisan told Siurek that he had spoken with Skilling about the Raptors credit capacity problems during the first quarter of 2001. Glisan was actively involved in making sure his finance experts were working to develop a solution to the Raptors' credit capacity problem. Siurek is certain that Causey spoke to Skilling about the credit capacity problem.

¹ It was unusual for Siurek to deal directly with Causey. He usually interacted with Faldyn, who would communicate with Causey.

MEMORANDUM

TO: Enron Files
FROM: Reed M. Brodsky
DATE: January 14, 2002
RE: Interview of Rodney Faldyn

On January 9, 2002, Bill McLucas, Chuck Davidow, David Cohen, and Reed Brodsky of Wilmer, Cutler & Pickering ("WCP") and Leslie Knowlton and Ron Forster of Deloitte & Touche (an accounting firm retained by WCP), spoke with Rodney Faldyn, Enron's Vice President of Financial Accounting, at Enron's Houston headquarters to gather information from him in order to allow WCP to provide legal advice to the Special Committee of Enron's Board of Directors. David S. Hoffner and Jessica Y. Brewster of Swidler Berlin Shereff Friedman were present and represented Faldyn.

This memorandum has been prepared by counsel in anticipation of possible litigation arising from a Securities and Exchange Commission ("SEC") investigation and any parallel or related proceedings. This memorandum incorporates the mental impressions, analyses and opinions of counsel. As such, this memorandum is intended solely to assist counsel in providing legal representation and advice to the Special Committee of Enron's Board of Directors, and is not intended to provide a substantially verbatim recital of Faldyn's statements. The interview was based on WCP's understanding of the facts and review of documents as of the date of the interview. Furthermore, Faldyn has not reviewed this memorandum. Therefore, this memorandum may contain inaccuracies and the following discussion of certain events may be incomplete or lack context.

Davidow explained that we were interested in what Faldyn knew at the time of the events, and Faldyn should let us know if and when he shares information with us about past events based on what he learned recently. Davidow stated that we represented the Special Committee of Enron's Board, that the conversation was privileged and confidential, but that the Committee could waive the privilege and pass along information to the public, the SEC, or the United States Attorney's Office, and that it was very likely that we would pass along what information we learned in general to others. Faldyn indicated that he understood.

Faldyn's Role

Faldyn is the head of accounting transactional support and reports to Rick Causey. Faldyn heads a group that had approximately 30 people at its peak and was divided into five or six teams of six people each. Each team was from a different Enron division, such as Enron Energy Services. Each team leader reported dotted line to Faldyn and direct line to the Chief

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Accounting Officer ("CAO") of their respective division. The team leaders under Faldyn were Ron Baker, Stan Farmer, Kevin Jordan, Phillip Lord, Mike Morrison, Ryan Siurek, and Clint Walden. Many of the team leaders moved around to other groups. Faldyn's role was created originally for Wes Colwell, but when Colwell moved to a different position Faldyn took over the role. He had two accounting people dedicated full-time to Enron Global Finance, Walden and Siurek. Faldyn's group was no more decentralized than other groups at Enron. Faldyn shuffled people around the Company wherever they were needed.

Faldyn's job is to coordinate among the different accounting groups in Enron's divisions and facilitate communication among them by doing things like holding weekly staff meetings. Faldyn also communicated with accounting specialists, kept abreast of the latest developments in accounting literature, and trained accounting people. The role of transaction support is not to underwrite risk but to identify risk. Faldyn and his team raised concerns with Causey and CAOs of his team's respective divisions. They would work on transactions and understand the commercial, tax, and legal risks involved; there would be a chart listing those risks for each transaction. Causey and the CAOs would be responsible for the decisions.

Communications with Arthur Andersen re SPEs

Faldyn and his team had extensive conversations with Arthur Andersen about special purpose entities ("SPEs") over the years before LJM was formed. During the seven years that Faldyn has worked for Enron, there was routine correspondence between Enron and Andersen regarding SPEs. There is very little accounting literature regarding SPEs – there are Emerging Issues Task Force ("EITF") interpretations and SEC comments. Before LJM, Enron used SPEs in different transactions, and Enron communicated with Andersen's Houston office and National Office Group ("NOG") in Chicago to better understand the application and use of SPEs. There were people in Andersen's NOG who sat on the Financial Accounting Standards Board and authored guidance regarding SPEs.

Since Causey became Chief Accounting Officer, Enron has had regular meetings with the NOG. Causey scheduled two meetings with the NOG each year. Since April 2000, Faldyn attended three meetings with the NOG – two in Chicago and one in Houston. Before the meetings, Causey would ask Faldyn to brainstorm and raise issues and current developments in accounting that they should discuss with the NOG. Causey's group and the NOG discussed new accounting issues that arose more than once to give the NOG a heads-up about current issues at the Company.

In May 2001, Faldyn attended an Enron accounting meeting with the NOG. Faldyn's attention was directed to a May 2, 2001, e-mail from Siurek to Jordan, Faldyn, Michael Patrick, Farmer, Alan Quaintance, Jr., and Walden attaching a memo documenting SPE-related issues that Enron intended to raise with the NOG. Faldyn stated that SPEs were always talked about in the Chicago meetings. The four issues raised in the document involved ambiguities in the marketplace and SPE literature. Questions about SPEs were being raised in speeches by the SEC, and various issues arose because views were changing. For example, the May 2 memorandum raised the question of whether an SPE could enter into a total return swap on 97% of the SPEs asset base. There were some questions and confusion surrounding the mechanics of

SPEs. The driving force behind the memorandum was that Enron Europe was receiving different advice regarding SPEs than Enron in America. There was some debate between Andersen's European and American offices over their respective interpretations of SPE literature. Andersen's NOG determined that the interpretations of both offices were right and within the rules. Andersen gave Enron a memorandum within the last eighteen months containing three approaches: (1) the Houston approach, which was preferred; (2) the London approach, which was acceptable; and (3) an unacceptable approach that neither Andersen office had suggested. The memorandum did not identify Enron structures that were unacceptable. Faldyn did not recall any further specifics about the memorandum.

Andersen also gave Enron feedback on SPEs as part of Andersen's real-time auditing. Faldyn did not recall any instance when Andersen told Enron to restructure an SPE after a deal closed. One common issue that arose over the use of SPEs was the treatment of fees. In prior years, there were inconsistent practices as to when and how to gross up the 3% equity requirement fees. Eventually, a consistent approach was developed for Enron.

In addition to the three percent requirement, there was also debate over the concept of "first dollar of loss" in EITF 90-15. Andersen's guidance was that the 3% outside equity needed to bear the risk of "first dollar loss." Andersen's interpretation, however, was different from SPE rules for leasing in EITF 90-15, which is that an investment would not be considered at risk if the investor received some guarantee on its initial equity investment. Enron wanted Andersen to reconsider its interpretation of 90-15. Faldyn could not say that Andersen and Enron reached consensus on their respective interpretations of "first dollar of loss."

It was routine for Enron to articulate the business purpose of transactions for Andersen's audit purposes. Enron would articulate the business purpose. If Andersen challenged it, the deal did not close; if Andersen did not challenge it, the deal closed.

Raptors I, II, & IV

In April 2000, Faldyn joined the Enron Corporate group from his position at Azurix. Raptor had already been structured and Andersen had been consulted before Faldyn became the head of transaction support. Faldyn became involved in some final issues relating to Raptor I before it closed. Raptors II and IV duplicated Raptor I. Faldyn did not recall being involved in a discussion with Andersen about the business purpose of Raptors I, II, or IV.

Put on Enron's Stock. Faldyn was not involved in the April 2000 put on Enron's stock in Raptor I or its termination in October 2000. He was not aware of any conversations with Andersen about the business purpose of this put, nor was he part of any conversations about the business purpose of Enron buying a put on its own stock. Faldyn did not have any conversations with Andersen revisiting this transaction. He was involved with cross-collateralizing and restructuring the Raptors.

\$41 Million Distribution to LJM2. There were numerous discussions about whether there was sufficient equity at risk when the put was settled and LJM2 received \$41 million. Faldyn did not recall any discussions in-depth or being involved in such discussions. Accounting

literature was specific about what could and could not be distributed. As long as the earnings and cash were there, there could be a distribution. There was a concern that LJM2 would be a disinterested investor after it received \$41 million. The conclusion was LJM2 had an interest in the \$30 million that it had invested and which remained in the Raptor vehicle. There were conversations with Andersen, more specifically Deborah Cash, Dave Duncan, Patty Grutzmacher, and Carl Bass, who consulted with Andersen's NOG. Andersen-Houston used to consult with NOG frequently regarding the Raptor transactions. Andersen representatives would tell Faldyn and Faldyn's team that Andersen representatives were on conference calls with the NOG, and Andersen representatives would provide feedback regarding the views of John Stewart and others from the NOG. At one meeting, it was evident that the NOG knew more about the Raptor transactions than Faldyn did at the time.

Fastow. Fastow's reports to his LJM2 partners, in which he described the initial distribution from the Enron put as a return "of and on equity," were not consistent with Faldyn's view of the Raptor transactions and negotiations at the time. Fastow understood the SPE rules in-depth, and Fastow knew them as well as Faldyn knew them, including the 3% requirement of equity at risk. Fastow may not have known the details regarding gross-up mechanics, but Fastow had been involved with SPEs for a longer period of time than Faldyn.

Swaps. The business units were knowledgeable about the Raptor swaps and intended business purpose. Causey and Wes Colwell were involved with putting the hedges in place through the Raptor vehicle. Faldyn was not really involved. Siurek was the point person and worked with Faldyn on the hedges and swaps. Faldyn was involved in many other non-LJM transactions at the time.

Andersen. Andersen's Houston office and the NOG provided guidance about the Raptors from the inception. Siurek brought Faldyn up to speed on the transactions regarding how the Raptor vehicles were created with the maximum notional amount, \$30 million of equity divided by 3%, or approximately \$1 billion. Andersen required including the notional amount in the calculation of the 3% equity requirement (*i.e.* the vehicles were required to have equity representing 3% of assets and 3% of the notional amount of derivative transactions). Andersen required Enron to run the 3% test at inception and each time a derivative transaction was done. If additional equity was not contributed and there was deterioration in the vehicle at the time a derivative transaction was proposed, the notional amount would have to be reduced. For this reason, derivative transactions in Raptor I were entered into all at once on August 3, 2000.

Andersen later changed its view and agreed with Enron that the notional amount at inception was available for derivative transactions over the life of the vehicle, regardless of any subsequent deterioration. Andersen's change of opinion frustrated Enron because the restructuring might not have been as difficult under Andersen's new view.

August 3, 2000 Derivative Transactions. Faldyn did not know why all derivative transactions took place on August 3, as opposed to another date. Faldyn heard about Causey's and Fastow's discussions through Siurek's regular updates. After Causey's and Fastow's negotiations, Faldyn and his team of accountants reviewed documents that attorneys provided them from an accounting perspective.

CLO. Faldyn was not involved at the time of Raptor I's hedging of a put Enron gave to ENA CLO Trust.

Raptor III

Purpose. There were questions raised regarding Raptor III's business purpose. Although Raptor III only hedged Enron's exposure in TNPC when it was created, it was considered a broader hedging vehicle for Enron Energy Services.

There were discussions regarding the wisdom of hedging Enron's exposure to TNPC with an entity capitalized with TNPC warrants, but Faldyn did not recall all the specifics. Based on the size of Enron's TNPC position, there was a concern Enron would be exposed to a high amount of volatility when TNPC went public. While hedging Enron's exposure with an entity capitalized with TNPC warrants was not the best option, it was better than doing nothing. Everyone recognized it was a "dirty hedge" – a common term in the industry used when a hedge was not expected to fully offset volatility in the underlying assets. Everyone's view was that Enron's TNPC investment would perform well, but Enron's risk was that the stock would perform so well that Enron would be exposed to a sudden drop in the stock's value and, consequently, have to mark down a lot of its previously recognized profit. Enron wanted to avoid exposure to these type of volatile movements in TNPC's stock price.

Andersen. Andersen was party to discussions about hedging Enron's exposure to TNPC with an entity capitalized with TNPC warrants. Andersen was fully aware of the Raptor III transaction and fully understood the intent of the Raptor III vehicle and why the vehicle was capitalized the way it was. Faldyn recalled conversations with Cash about how the chances of the IPO proceeding at the time were unclear.

Valuing TNPC Warrants. LJM2 had invested previously in TNPC, and LJM2 was bullish on TNPC stock. Accordingly, it was easy to negotiate with LJM2 to take a larger position in Raptor III. In Raptor III, LJM2 invested \$30 million, and Enron transferred to Raptor III TNPC warrants valued at \$10.75 per TNPC share before TNPC's IPO. After the IPO, when the value of TNPC stock increased to \$21, Raptor III had credit capacity supported by the difference between the \$10.75 and \$21 values. Faldyn emphasized that no one knew the price of TNPC would rise that much in five days. There were three or four monetizations of TNPC stock in the months preceding the IPO in which TNPC stock was valued at \$10.75 per share. TNPC's IPO was not a guarantee. It occurred when the market was softening, and dot com companies were not doing very well. TNPC was trying to expedite its public offering, and it was possible that, if the IPO was delayed for another two or three weeks, the IPO may not have taken place at all. There was a fair amount of skepticism about how the market would react to TNPC.

Getting Raptor III closed before the IPO was not a concern. As far as Faldyn could recall, there was no pressure to get the transaction done. If the IPO did not work, they viewed the transaction as at least the syndication of a portion of Enron's TNPC stock holdings.

Board. Faldyn did not know whether the Board approved Raptor III or whether Raptor III was discussed at the Board committee level. Faldyn could not think of a reason why Raptor III would be treated any differently than Raptors I, II, or IV with respect to obtaining Board approval.

Enron Management. Faldyn discussed Raptor III with Causey and Andy Fastow. He met with Causey and Fastow to refresh them about Raptor III before Causey and Fastow met with Jeffrey Skilling. Fastow was very familiar with Raptor III. Faldyn did not know whether Skilling knew about Raptor III, but Causey and Fastow had numerous meetings with Skilling, which Faldyn assumed involved discussions about Raptor III. Faldyn did not have any conversations with Ken Lay about Raptor III, and he did not know whether Lay was familiar with or aware of Raptor III at the time.

Causey and Fastow pitched the general idea of the Raptor vehicles to the "Audit-Finance" Committee, so named because the Audit and Finance Committees would meet back-to-back, and Faldyn speculated that Lay might have attended and learned about the Raptor vehicles in general. Faldyn did not attend any "Audit-Finance" meetings, and he never met with Audit Committee members outside the meetings. The Audit Committee members would not recognize him unless they knew him from the time that he was the Chief Financial Officer of Azurix.

October 2000 Collar

Faldyn did not immediately recall any specifics about the October 2000 collar or Enron stock in Raptor I. Faldyn recalled discussions about waiving the restriction on hedging in order to complete the collar, but he did not remember being part of them. Siurek always updated Faldyn about these discussions and Siurek's communications with Causey.

Faldyn did not recall any discussions regarding the validity of the restriction discount on Enron's stock and the subsequent collar. At first, Faldyn explained that the restriction impacted the vehicle's credit capacity because accretion of the discount was included. Subsequently, with his memory refreshed, Faldyn stated that the accretion of the restriction was not used for credit capacity purposes, but only for calculation of GAAP income.

Cross-Collateralization

Faldyn was involved in many discussions about the Raptors' cross-collateralization. Enron discussed cross-collateralization many times with Duncan, Cash, Bass, and other Andersen people. There was a division of opinion within Andersen on whether to do a cross-collateralization.

Even without some type of cross-collateralization, Enron employees believed that they could analyze the Raptor vehicles on an aggregate basis, because there was only one counterparty. All transactions were between Enron and the Raptor vehicles.

Faldyn suggested consolidating the four Raptor vehicles. Consolidation was a viable option because there were five years remaining on the transactions. Faldyn believed that LJM2

would not be opposed to merging, because LJM2 was losing approximately \$60 million on two vehicles and the two remaining vehicles had a lot of credit capacity. The two "good" vehicles would help the two "bad" vehicles, and they were very optimistic about Enron's stock value at the time. Although Enron and Andersen discussed consolidation for several weeks, Andersen rejected Faldyn's proposal. Andersen questioned LJM2's business purpose for consolidating and thought that LJM2 would never expose itself to two additional \$30 million losses from the remaining two Raptor vehicles that were not underwater. Andersen said consolidation would have been an option had one Raptor been contemplated at the inception. Faldyn thought that Andersen's opinion favored form over substance. Eventually, Andersen opined that linking the Raptors through a cross-collateralization would work. Andersen's caution with respect to the Raptor restructuring was heightened because the transactions involved a related-party.

The cross-collateralization was viewed as a remedy to any existing credit capacity issues in the vehicles. Enron personnel felt strongly that the form did not need to be in place to recognize the substance of the cross-collateralization effect. Subsequent evidence is often used to determine whether impairments have been cured. Faldyn explained that the approach was similar to a company preparing to record a reserve for a potential impairment of a receivable at quarter end. If the counterparty receives a windfall right after quarter end, indicating its ability to pay, the company can use that as evidence to not write down the receivable at quarter end.

Raptor Restructuring

Credit Capacity. In the first quarter 2001, the value of TNPC shares deteriorated further, causing Raptor III to run into more severe credit capacity problems. Raptor I was also starting to have a problem. By March 2001, Raptors I and III were underwater by approximately \$350 million. However, when the credit capacity of all four Raptor vehicles was considered together, they were underwater collectively much less than \$350 million. If nothing had been done, a loan impairment loss of approximately \$350 million would have been taken at the end of the first quarter 2001.

Participants. Faldyn recalled that he, Causey, Siurek, Baker, and Glisan were involved in most of the Raptor restructuring. They brainstormed for several weeks and thought about different options for restructuring. Faldyn did not recall specifically what they came up with. Fastow and Skilling were not involved in these brainstorming sessions. Causey told Faldyn that Skilling was aware of the credit deficiency issue. Faldyn did not recall all the specifics regarding the Raptor restructuring, because the buyback of Azurix was consuming seventy percent of Faldyn's time in the fourth quarter 2000, and, since that time, he worked on hundreds of deals unrelated to LJM.

Faldyn did not recall any discussions about whether to simply unwind the Raptor transactions in March 2001. There were discussions were about finding solutions to accounting issues concerning credit capacity and business issues regarding the broader use of the vehicles. Commercial people were involved to enhance the effectiveness of the vehicles. Faldyn did not participate in and was not aware of any discussions with the research group relating to increasing the Raptors' credit capacity with 12 million shares, known as the JEDI forwards. Buy, Gordon

McKillop, and Siurek consulted with the research group. Faldyn did not recall any information about the tax implications of moving the 12 million shares from JEDI to the Raptors.

Faldyn knew that Causey and Fastow were involved in the restructuring. While Faldyn did not know whether Skilling was involved, Causey said that Skilling said the restructuring was a top priority and that Causey and his team should be focused on the restructuring. Enron took the Raptor restructuring very seriously. As far as Faldyn knew, the Raptor restructuring was not taken seriously because the transactions involved a related-party, but because the restructuring involved a big number, \$350 million in potential losses.

Negotiations. In the fourth quarter 2000, there were discussions about buying back Chewco's interest in the JEDI partnership. Faldyn attended a meeting during which Causey and Glisan talked about buying back Chewco, consolidating JEDI, and using Enron shares to further support the credit capacity of the Raptor vehicles. Causey and Glisan decided to move forward with the Raptor restructuring, and they negotiated with Fastow. Siurek made sure all relevant documents were in order. Faldyn was not involved with the terms of the restrictions placed on the 12 million shares of Enron stock Enron delivered to the Raptor vehicles. Faldyn's involvement with the 12 million shares was limited to reviewing spreadsheets. Faldyn was aware that Enron had entered into share settled costless collar arrangements with the Raptor vehicles on the 12 million shares, but he was not involved in analyzing the impact of the collars. Faldyn did not recall any discussions about whether restrictions on the 12 million shares precluded Enron from entering into costless collar arrangements with those same shares. Faldyn would have learned about the collars from Siurek's regular updates.

Linking the Raptor vehicles required LJM2's approval. Faldyn was not part of the restructuring negotiations with LJM2. Causey and LJM2 spoke daily. Causey would tell Faldyn that there were healthy negotiations over costless collars and putting in new shares. Fastow would ask Faldyn and Faldyn's group to conduct studies and persuade LJM2 that the restructuring should be done. Based on the negotiations, Causey would contact Faldyn or more often Siurek and ask them to make changes to documents. Causey would ask Siurek to negotiate terms with Kopper. Fastow was in an awkward position, but Faldyn did not recall any discussions about Fastow's divergent interests in negotiating successfully for LJM2 against Enron but simultaneously serving as Enron's CFO. Enron felt strongly that a form needed to be in place to resolve the credit capacity problem before fixing the problem going forward.

Andersen. Enron consulted Andersen about the 12 million Enron shares contributed to the Raptor vehicles and the collars in the same way that Enron consulted Andersen about other matters. Both Duncan and Cash were aware of the Raptor restructuring. Faldyn knew Duncan and Cash were aware based on conversations with them during lunches and flights on the corporate plane. Andersen was present in Enron's offices every day, and Andersen received a copy of the list of deals that Faldyn was working on, which included the Raptor restructuring.

Board. Faldyn recalled attending a meeting with Causey, Glisan, and DeSpain. During this meeting, DeSpain said that delivering the 12 million Enron restricted shares into the Raptor vehicles did not require Board approval because those shares came from JEDI and thus were not new. DeSpain said that Board approval was required before Enron could authorize issuance of

new shares. DeSpain was the gatekeeper of Enron stock and communications with rating agencies. Fastow and the Corporate Secretary would be in the position to decide whether information about Enron shares would be presented to the Board. The contingent forwards for Enron stock from Peregrine in Raptor I were not counted as additional shares; they were counted once.

Timing. Faldyn did not recall the timing and relationship between documents being executed and restructuring events taking place. Enron viewed the timing as irrelevant, whether the restructuring occurred before, at, or after quarter end was not important. The important thing was to get the restructuring done.

\$20 Floor. To comply with EITF 00-19, Enron needed to have sufficient shares authorized to be able to fulfill the share settled collars. A floor price was required under 00-19 to keep the collar as an equity transaction and prevent it from becoming a profit and loss event. Causey had input into the dollar value of the floor below which Enron could not issue any additional shares. Twenty dollars was considered a safe, low number providing Enron with sufficient downside protection. Below twenty dollars, Enron did not have a sufficient number of authorized shares to settle the collars, and Enron's profits and losses would be impacted. As a result, at \$20, the collars had an effect on both the numerator and the denominator in calculating earnings per share. The collars were in-the-money for LJM and out-of-the money for Enron and, as a result, very dilutive. Causey and Fastow negotiated the floor; Fastow wanted it to be \$10 while Causey pushed for \$20. Fastow was aware of the 00-19 issue and had to have been aware of the issue for Enron.

During Fastow's and Causey's conversations, Fastow was representing LJM2, not Enron. Fastow did not negotiate specific deals, others did. The collar was beneficial to Enron to protect Enron's credit capacity. Causey had to sell Fastow on the idea that the collar was beneficial to LJM2, providing LJM2 with sufficient protection against the downside.

Raptor Unwind – Third Quarter 2001

Credit Capacity. In the second quarter 2001, the credit capacity in the Raptors did not become much worse. Faldyn did not recall any analysis in the second quarter 2001 of whether the cross-collateralization was working. In the third quarter 2001, however, the value of TNPC stock had deteriorated rapidly, causing very serious credit capacity problems for Raptor III. Although there was some decrease in Enron's stock price, the value was still in the \$40 to \$60 range. The concern was that Enron stock would fall below \$20 per share, and the Raptors would cause significant dilution.

Offer to Buy TNPC. Initially, there were only discussions about unwinding Raptor III. Lou Pai approached Enron confidentially about buying TNPC. Accordingly, Enron analyzed what TNPC shares the Company owned. Causey probably asked Faldyn and Faldyn's team where all of Enron's TNPC holdings were to regain control of the Company's holdings. Fastow knew about the outsider's approach to buy TNPC, and Fastow knew who the potential buyer was. Faldyn attended a meeting with Fastow, Jimmie Williams, and Mark Muller during which the offer to buy TNPC was discussed. There was some consideration that Fastow could use this

information to his advantage in negotiations with Enron on behalf of LJM2. Fastow had Williams and Faldyn run analyses and do all the work, including showing Fastow different values, because Enron was considering asking LJM2 to unwind the transactions.

Enron Stock Value Drops. Enron stock started to deteriorate more and more. When the value of Enron's stock fell into the 20's, there were discussions about what to do with the Raptor vehicles. Buying back the interests in the Raptor vehicles was considered. Faldyn could not recall the chronology, but it was during this time when the accounting error requiring a \$1 billion equity adjustment surfaced. Faldyn prepared a memorandum outlining five possible solutions, including buying out one of the Raptors, doing nothing, buying out Raptor III, and buying back all the Raptors. Very late in the third quarter, Causey and Faldyn presented these options to Lay, Whalley, and others. At this point, Skilling had left Enron. Causey kept Whalley aware of the issue with the Raptors. Discussions about what to do occurred right up to the very end of the third quarter. They became very pressed for time to cut a deal before midnight on September 30, 2001. Ultimately, Whalley thought that the best solution was to buy out all of the vehicles. Not only would this resolve the problem with the Raptors, but it would also help end the media attention given to LJM2.

Negotiations. Faldyn was not involved in the negotiations to unwind the Raptors. Faldyn did not know who negotiated with LJM2 on Enron's behalf. LJM2 was paid \$35 million. Faldyn expected LJM2 to be paid a lot more money, because LJM2 had a lot of leverage based on the fact that Kopper knew Enron wanted to terminate the vehicles before the third quarter ended. At the time, Faldyn was in favor of buying the Raptors back. Causey asked Faldyn for his opinion. On more than one occasion, Faldyn had wanted to buy the Raptors back, because they were related-party transactions, which Faldyn did not support. When he came over from Azurix, he tried to avoid all related-party transactions. He questioned how independent the transactions could be if the CFO of the Company was involved.

Buybacks. When Enron bought back the Raptors, there was a lot of analysis done on the amount of the restriction discount and how that would effect Enron's income in the third quarter. The way Enron analyzed credit reserves was also an issue with Andersen. As part of Andersen's second look at these transactions, Andersen said the Monte Carlo probabilistic method was the correct approach, and Andersen asked Enron to re-analyze all its credit reserves based on this method. Enron had been advocating the Monte Carlo method for a long time.

When Enron bought back the vehicles, the transaction was viewed as a substantive one that was not contemplated originally. Credit reserve rules no longer applied; purchase accounting rules were used. Enron's \$35 million payment to LJM2 plus the fair market value of the liabilities exceeded the fair market value of the assets and, consequently, impacted Enron's profit and losses.

Enron had recognized hundreds of millions of dollars from transactions with the Raptors. It was not true that the Raptor vehicles did not have the money to pay Enron. The Raptor vehicles held restricted stock that became more valuable as the restriction amortized. It was a treasury stock transaction. The fair market value of the stock that was repurchased impacted Enron's equity.

Andersen. In the third quarter 2001, when the media focused on LJM-related transactions and Enron was looking to buy out Raptor III and then buy out all of the Raptor vehicles, Andersen began to reconsider the Rhythms transaction and spent hours re-analyzing the transaction. Many of Andersen's prior decisions changed. Andersen was now stating that the equity calculation was wrong. Faldyn saw bills where Andersen was billing Enron for this re-analysis even though Andersen was never asked to do this work.

Equity Adjustment. The \$1 billion equity adjustment was not an accounting 101 issue, because the Raptors involved highly complex derivatives and EITF's 007, 005, and 0019. Butts had raised the issue regarding equity recognition in the first quarter 2001 with Siurek who, in turn, had discussions with Andersen about it. Grutzmacher e-mailed Siurek confirming Andersen's view of how Enron should recognize the equity. Faldyn did not know whether the issue was raised in 2000 when the Raptors were first structured. He always thought the equity issue was important. It arose when shares from Peregrine were transferred to Raptor I and the investment in Whitewing was reduced. Originally, Enron did not record an entry for this. There was a lot of consultation with Andersen. Andersen was adamant the day before the quarterly report was filed in 2000 that the note receivable should be recorded. This set in motion the accounting error that was eventually restated and corrected in October 2001.

Regarding the additional charge to equity of \$200 million, Enron was buying back stock that was worth more. Although the price was lower, more shares of stock valued at a lower price were worth more than less shares of stock valued at a higher price. The increase in value was driven by the fact that there were more shares and less restrictions on these shares. Vince Kaminski and Andersen's New York office analyzed the value of the shares Enron was buying back. Although Kaminski's and Andersen's views differed, the difference was not significant, and Enron accepted Andersen's numbers. Kaminski was not uncomfortable with this result.

Faldyn did not know the terms of the fees for each vehicle per quarter.

Corporate Governance

Faldyn raised his views and concerns about LJM2, the Raptors, and related-party transactions. He was told that the related-party transactions were approved by the Board, Lay, and Skilling. Faldyn told Causey routinely that he was concerned about these transactions. Faldyn's position allowed him to avoid significant involvement in many LJM-related deals. People speculated that Fastow was making a lot of money from LJM transactions. Faldyn's skepticism was not based on the money that Fastow was making, but on the fact that Faldyn had been an auditor for eight years and did not like the nature of related-party transactions.

Faldyn was not involved with monitoring LJM-related transactions. Causey wanted to make sure that what was in the deal approval sheets and transaction documents was correct factually, and that's all Faldyn did. Causey would occasionally tell Faldyn that there were errors in the descriptions of the transactions and ask Faldyn to correct them. Causey negotiated the LJM deals, and Causey and Buy were delegated the authority to approve the transactions. Faldyn did not know any more about Causey's and Buy's roles. He did not know if Causey

evaluated whether the LJM-related transactions were good business deals. Faldyn was not sure of Causey's view of the transactions. Causey and Buy were making a judgment on the arm's-length nature of the deals. Every LJM-related transaction crossed Causey's desk, and Causey would consult senior business unit leaders about the terms in all the deals. Business unit leaders had an incentive to make sure that the deals were arm's-length. For example, Dave Delainey, the head of Wholesale at the time, knew all the swaps Enron entered into and was strongly supportive of the hedges.

LJM2 Investment Parameters

Faldyn was shown a one-page document entitled "LJM2 Investment Parameters with Enron" listing six parameters to be considered in any transaction conducted between Enron and LJM2. Faldyn did not remember when he drafted the document. He wrote it to enhance the documentation relating to these transactions. Faldyn obtained the information from Causey. Fastow received a copy of an earlier draft and wanted to change language in the second parameter, which had stated that no transactions with LJM should result in a gain or a loss without Causey's approval. Fastow said that in prior LJM-related transactions there already had been a gain or a loss and, therefore, asked that the second parameter be softened to state that LJM transactions resulting in a gain or a loss to Enron should be permissible as an exception with Causey's approval. Fastow's proposed edits were made.

The fourth parameter, which prohibited any contemplated repurchase by Enron or any Enron affiliate of an asset/equity investment previously acquired by LJM, was the result of Causey's and Faldyn's strong views that reacquiring assets and investments from LJM, and monetized structures in general, was not good practice. The sales to LJM were designed to be one step in a process designed to dispose assets to third parties and repurchases jeopardized that intent. Buybacks occurred both before and after the LJM2 parameters document was written, and Faldyn had not heard about any issues relating to buybacks at the time the document was written. However, Faldyn believed that buybacks jeopardized control over the assets and never looked good. Causey did not disagree with the fourth parameter and strongly discouraging buybacks. Faldyn was not aware of any of the buybacks at the time that they occurred, but assets in monetized structures were also bought back on occasion and this might explain why no one thought about the buybacks from LJM.

The document was supposed to be sent to the heads of all business units. Faldyn asked Causey to send the document so that it would carry more weight. Causey said that he would send it out, but probably forgot, even though Faldyn reminded Causey about it a few times. Jordan Mintz knew about these parameters. When Faldyn left Azurix, related-party transactions were not treated any differently than other transactions. Faldyn and Mintz were trying to put additional steps in place to make sure that related-party transactions were treated differently.

LJM Deals

Faldyn was not aware of the concentration of LJM-related deals at the ends of quarters. Such a pattern would not cause him concern, however, because he was accustomed to working

on deals until the end of a period, analogizing the situation to writing answers to an exam until the very last moment when someone would say "pencils down and time's up."

Chewco

Faldyn did not know Andersen's involvement in Chewco's buyout of CalPERS' interest in JEDI. At the time, Faldyn was working at Enron International. Faldyn heard from Glisan that Chewco documents were handled with extreme sensitivity, because an Enron employee was involved in the transactions. At the time, Glisan was moving from accounting to finance, and Faldyn and Glisan rarely spoke. Glisan said on more than one occasion that Thomas Bauer could review the Chewco-related documents in a room without making any copies, because they did not want Enron employees talking about sensitive employee matters. Glisan said that Bauer had complete access to all the documents. Faldyn speculated that Glisan shared this information with Faldyn to show off that Glisan was telling an Andersen employee what to do. Faldyn had not heard about any other similar examples of restrictions placed on Andersen's review of documents.

Faldyn had also heard two to three weeks ago from Jim Brown, who was an auditor working on Chewco, that Glisan had Brown kicked off the Global Finance engagement. Faldyn learned some time ago that Glisan did not like Brown. When Faldyn considered hiring Brown, Glisan was very negative about Brown. However, Faldyn's conversation with Glisan took place after the Chewco-related events. Recently, Brown told Faldyn that Brown had given Glisan answers to accounting issues, which may or may not be related to Chewco, that Glisan did not like.

There is a lot of competition within Enron and multiple people, like Glisan and Bill Brown, wanted to take credit for Chewco.

Glisan did not provide Faldyn with any explanations over the last few months about how the reserve accounts went undetected for so long. Faldyn has not spoken to Glisan since the reserve accounts came to light.

Chewco Tax Indemnification

Faldyn was familiar with the tax indemnification between Enron and Chewco. Clint Walden said that the repayment should be made, but Faldyn only heard discussion about the accounting treatment for the transaction. Faldyn did not question whether the transaction was valid. He heard there was discussion of its validity. Michael Kopper and Walden had strong views; Kopper had used the dispute regarding the tax indemnification as leverage in LJM-related negotiations.

Osprey / JEDI-Chewco Revolver

Faldyn did not learn until October 2001 about LJM's investment in Osprey or that the JEDI-Chewco revolver was converted to a loan.

Trushar Patel

Although Faldyn had minimal involvement in the EECC Turbine transaction, Faldyn was involved in a conference call about this deal. The person negotiating on behalf of Enron during the call, Trushar Patel, was the fiancé of one of the individuals representing LJM2 on the other side of the negotiation, Anne Yaeger. Faldyn had the impression that Patel was involved in every LJM deal, because whenever Faldyn had to initial the approval sheets on Causey's behalf and had questions Faldyn was told to speak with Patel. Faldyn did not know when Patel and Yaeger began their relationship, and he did not know whether Patel ever negotiated on behalf of LJM.

Fastow

Other than what Faldyn learned recently about Southampton, Faldyn was not aware of any gifts, investments, or other benefits bestowed by Fastow on Enron employees.

Disclosure

Faldyn was not involved in the disclosures of the related-party transactions. Faldyn's job was to work on accounting issues. He was not consulted on the 10-Q's, 10-K's, or other disclosures.

Kaminski's October 2001 E-mail

Faldyn recalled reading Kaminski's October 2001 e-mail stating that Kaminsky was not getting all information. Faldyn viewed Kaminski as a genius and an Enron senior executive. Faldyn had heard second-hand that Kaminski was troubled by Fastow's involvement in LJM, and Kaminski did not want to get involved in LJM transactions.

MEMORANDUM

TO: Enron Files
FROM: Reed M. Brodsky
DATE: January 22, 2002
RE: Interview of Richard Causey

On January 17, 2002, Chuck Davidow and Reed Brodsky of Wilmer, Cutler & Pickering ("WCP") spoke with Richard Causey, Enron's Executive Vice-President and Chief Accounting Officer, at Enron's Houston headquarters to gather information from him in order to allow WCP to provide legal advice to the Special Committee of Enron's Board of Directors. Michael Levy and Amy Carpenter-Holmes of Swidler Berlin Shereff Friedman, LLP and Jacks C. Nickens of Clements, O'Neill, Pierce, Nickens & Wilson, L.L.P., were present and represented Causey.

This memorandum has been prepared by counsel in anticipation of possible litigation arising from a Securities and Exchange Commission ("SEC") investigation and any parallel or related proceedings. This memorandum incorporates the mental impressions, analyses and opinions of counsel. As such, this memorandum is intended solely to assist counsel in providing legal representation and advice to the Special Committee of Enron's Board of Directors, and is not intended to provide a substantially verbatim recital of Causey's statements. The interview was based on WCP's understanding of the facts and review of documents as of the date of the interview. Furthermore, Causey has not reviewed this memorandum. Therefore, this memorandum may contain inaccuracies and the following discussion of certain events may be incomplete or lack context.

Causey described the Raptor restructuring in the first quarter of 2001. Causey did not recall the amount of the shortfall in the Raptor vehicles, but in March 2001 the value of Enron stock began to drop, which would have created some of the problem. The restructuring was important, and it was on Causey's radar. Causey received Daily Position Reports ("DPRs") that reflected how each Raptor was performing. The process of receiving these DPRs was set up to monitor the credit position of the Raptors. Causey did not recall who received the DPRs. He received these reports by e-mail from someone in Enron Global Finance, possibly Gordon McKillop. He did not recall who received these daily reports in accounting. Causey checked the credit capacity of the Raptors almost every day. As the capacity became tight, Causey checked more often; if not daily, then every other day.

Causey was certain that he told Skilling about the shortfall in the Raptor vehicles and made Skilling aware that Causey was working toward finding a solution. When they found what Causey felt was a solution, Causey sought and obtained Skilling's approval. Causey updated Skilling before executing the Raptor restructuring plan, during development of the restructuring plan, and after determining the solution to the problem. Because Ryan Siurek had done most of

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the accounting work on the restructuring, Causey asked Skilling to call Siurek and thank him for his work. Causey learned from Siurek that Skilling had left a voicemail message on Siurek's telephone and that Siurek was happy to receive Skilling's message.

Causey did not recall noticing that there was a shortfall in the credit capacity of two Raptor vehicles in mid-February 2001. He also did not recall briefing the Audit Committee about any shortfall. In early February, Causey was busy preparing drafts of footnotes to the financial statements, preparing the earnings release, and focusing on matters that ended in 2000, rather than the first quarter of 2001. By the second week of March 2001, there was pressure on Enron's stock, and Causey was out of town over Spring break. Although Skilling had just been named CEO, Causey did not recall contacting Skilling from out of town to discuss the problem with the Raptors' credit capacity. Causey did not have any discussions with Ken Lay about the shortfall in the Raptor vehicles or the Raptor restructuring; typically, if anyone would apprise Lay of an issue like that, it would be Skilling. Between the February 12, 2001 Audit Committee meeting and the May 1, 2001 Audit Committee meeting, the problem with the Raptors' credit capacity had been resolved, and Causey did not recall the issue being raised at the May 1 Audit Committee meeting. The only Board member that Causey discussed the Raptor restructuring with was Skilling.